

SUNRISE EDUCATION CENTER
REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sunrise Education Center

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center (the Academy), as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sunrise Education Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008, on our consideration of Sunrise Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costerisan + Ellis, P.C.

September 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Sunrise Education Center's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$8,624 compared to a budgeted figure of \$885 increase in fund balance. This gives the Academy a general fund balance of \$31,607.
- The Academy retired \$21,914 in long-term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary

information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

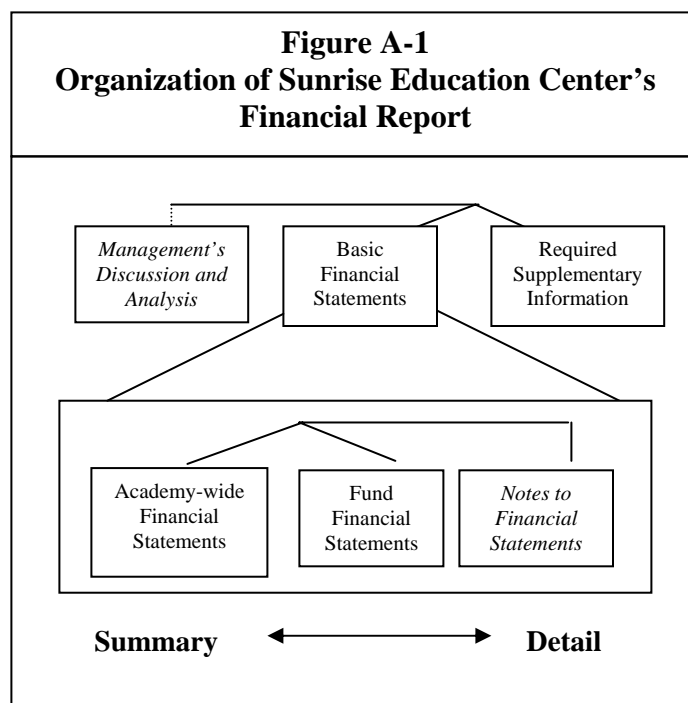


Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as students
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State Law and the Academy establishes other funds to help it control and manage money for particular purposes.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$30,161 decreased by \$14,637 during the year. See Figures A-3 and A-4.

The total revenues decreased by 9% to \$560,245. This decrease is mainly due to a decrease in student enrollment at the school. State aid foundation allowance included in revenue from state sources accounts for 80% of the Academy's revenue.

The total cost of instruction increased by 8% to \$297,970 primarily due to implementing the Michigan School Readiness Program.

Academy governmental activities

Figure A-3
Sunrise Education Center's Net Assets

	2008	2007
Current assets	\$ 107,074	\$ 135,453
Capital assets, net	743,141	771,068
Total assets	850,215	906,521
Current liabilities	100,587	117,594
Long-term liabilities	719,467	744,129
Total liabilities	820,054	861,723
Net assets:		
Invested in capital assets, net of related debt	(1,446)	4,567
Unrestricted, as restated	31,607	40,231
Total net assets	\$ 30,161	\$ 44,798

Figure A-4
Changes in Sunrise Education Center's Net Assets

	2008	2007
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 104,610	\$ 126,610
General revenues:		
State aid - unrestricted	447,506	471,943
Other	8,129	14,073
Total general revenues	455,635	486,016
Total revenues	560,245	612,626
Expenses:		
Instruction	297,970	275,176
Support services	183,339	219,495
Interest and fees	65,646	67,628
Unallocated depreciation	27,927	27,594
Total expenses	574,882	589,893
Change in net assets	\$ (14,637)	\$ 22,733

Financial analysis of the Academy's funds

The Academy's fund balance decreased by \$8,624 to \$31,607. Transfers to the debt service fund for principal and interest payments on long-term debt of \$87,560 were made from the general fund.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenues to align with activity throughout the year.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$885, the actual results for the year showed expenditures over revenues of \$8,624.

Revenues came in \$14,945 under budget while expenses were under budget by \$5,436.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2008, the Academy had invested \$743,141 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$27,927 from the beginning of the year. Total depreciation expense for the year was \$27,927. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
Sunrise Education Center's Capital Assets				
	Cost	Accumulated depreciation	2008 Net book value	2007 net
Land	\$ 55,000	\$ -	\$ 55,000	\$ 55,000
Building and improvements	782,333	108,610	673,723	697,990
Computer equipment	16,636	6,885	9,751	13,078
Site improvements	5,000	333	4,667	5,000
Furniture and fixtures	6,121	6,121	-	-
Total	<u>\$ 865,090</u>	<u>\$ 121,949</u>	<u>\$ 743,141</u>	<u>\$ 771,068</u>

Capital assets (Concluded)

The Academy did not purchase any capital assets during the current fiscal year.

Long-term debt

The Academy repaid principal on long-term debt of \$21,914 during 2008. The Academy did not borrow any additional long-term debt during the year. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was unaware of existing circumstances that could significantly affect its financial health in the future.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, CS Partners, at 2120 Progressive Drive, Hartland, Michigan, 48353, phone (810) 632-6863.

BASIC FINANCIAL STATEMENTS

**SUNRISE EDUCATION CENTER
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,998
Due from other governmental units	<u>105,076</u>
TOTAL CURRENT ASSETS	<u>107,074</u>
NONCURRENT ASSETS:	
Capital assets	865,090
Less accumulated depreciation	<u>(121,949)</u>
TOTAL NONCURRENT ASSETS	<u>743,141</u>
TOTAL ASSETS	<u><u>\$ 850,215</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 3,642
Accrued salaries and related items	59,852
Accrued management fee	10,979
Deferred revenue	994
Current portion mortgage payable	<u>25,120</u>
TOTAL CURRENT LIABILITIES	100,587
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	<u>719,467</u>
TOTAL LIABILITIES	<u>820,054</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(1,446)
Unrestricted	<u>31,607</u>
TOTAL NET ASSETS	<u>30,161</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 850,215</u></u>

See notes to financial statements.

**SUNRISE EDUCATION CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 297,970	\$ -	\$ 104,437	\$ (193,533)
Support services	183,339	-	173	(183,166)
Interest on long-term debt	65,646	-	-	(65,646)
Unallocated depreciation	27,927	-	-	(27,927)
Total governmental activities	<u>\$ 574,882</u>	<u>\$ -</u>	<u>\$ 104,610</u>	<u>(470,272)</u>
General revenues:				
State sources				447,506
Other				<u>8,129</u>
Total general revenues				<u>455,635</u>
CHANGE IN NET ASSETS				(14,637)
NET ASSETS , beginning of year				<u>44,798</u>
NET ASSETS , end of year				<u>\$ 30,161</u>

**SUNRISE EDUCATION CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General fund</u>	<u>Debt service</u>	<u>Total governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 1,998	\$ -	\$ 1,998
Due from other governmental units	105,076	-	105,076
TOTAL ASSETS	<u>\$ 107,074</u>	<u>\$ -</u>	<u>\$ 107,074</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 3,642	\$ -	\$ 3,642
Accrued salaries and related items	59,852	-	59,852
Accrued management fee	10,979	-	10,979
Deferred revenue	994	-	994
TOTAL LIABILITIES	75,467	-	75,467
FUND BALANCES:			
Unreserved, undesignated	31,607	-	31,607
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 107,074</u>	<u>\$ -</u>	<u>\$ 107,074</u>
Total governmental fund balances			\$ 31,607
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 865,090	
Accumulated depreciation is		<u>(121,949)</u>	
			743,141
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Mortgage payable			<u>(744,587)</u>
Net assets of governmental activities			<u>\$ 30,161</u>

See notes to financial statements.

SUNRISE EDUCATION CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General fund	Debt service	Total governmental funds
REVENUES:			
Local sources	\$ 8,129	\$ -	\$ 8,129
State sources	518,409	-	518,409
Federal sources	33,707	-	33,707
Incoming transfers	-	-	-
Total revenues	<u>560,245</u>	<u>-</u>	<u>560,245</u>
EXPENDITURES:			
Current:			
Instruction:			
Basic programs	237,987	-	237,987
Added needs	59,983	-	59,983
Total instruction	<u>297,970</u>	<u>-</u>	<u>297,970</u>
Support services:			
Pupil	6,174	-	6,174
Instructional staff	8,371	-	8,371
General administration	49,568	-	49,568
School administration	38,213	-	38,213
Business services	11,683	-	11,683
Operation and maintenance	28,504	-	28,504
Pupil transportation	40,262	-	40,262
Central support services	564	-	564
Total support services	<u>183,339</u>	<u>-</u>	<u>183,339</u>
Debt service:			
Principal retirement	-	21,914	21,914
Interest and fiscal charges	-	65,646	65,646
Total debt service	<u>-</u>	<u>87,560</u>	<u>87,560</u>
Total expenditures	<u>481,309</u>	<u>87,560</u>	<u>568,869</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>78,936</u>	<u>(87,560)</u>	<u>(8,624)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	-	87,560	87,560
Operating transfers to other funds	(87,560)	-	(87,560)
Total other financing sources (uses)	<u>(87,560)</u>	<u>87,560</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(8,624)</u>	<u>-</u>	<u>(8,624)</u>
FUND BALANCES:			
Beginning of year	40,231	-	40,231
End of year	<u>\$ 31,607</u>	<u>\$ -</u>	<u>\$ 31,607</u>

See notes to financial statements.

**SUNRISE EDUCATION CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds	\$ (8,624)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(27,927)
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Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Principal repayment on loan payable	<u>21,914</u>
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Change in net assets of governmental activities	<u><u>\$ (14,637)</u></u>
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**SUNRISE EDUCATION CENTER
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2008**

	<u>Agency fund</u>
ASSETS:	
Cash	<u>\$ 840</u>
LIABILITIES:	
Due to CLASS organization	<u>\$ 840</u>

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Sunrise Education Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Sunrise Education Center (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 30, 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

Fiduciary fund accounts for assets held by the Academy in a trustee capacity or an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and building improvements	20 - 50 years
Site improvements	15 years
Furniture and fixtures	5 years
Computer equipment	5 years

4. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue fund. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The Academy does not consider these amendments to be significant.

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2008, none of the Academy's bank balance of approximately \$30,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 55,000	\$ -	\$ -	\$ 55,000
Capital assets, being depreciated:				
Building and building improvements	782,333	-	-	782,333
Computer equipment	16,636	-	-	16,636
Furniture and fixtures	6,121	-	-	6,121
Site improvements	5,000	-	-	5,000
Total capital assets, being depreciated	810,090	-	-	810,090
Accumulated depreciation:				
Building and building improvements	84,343	24,267	-	108,610
Computer equipment	3,558	3,327	-	6,885
Furniture and fixtures	6,121	-	-	6,121
Site improvements	-	333	-	333
Total accumulated depreciation	94,022	27,927	-	121,949
Net capital assets being depreciated	716,068	(27,927)	-	688,141
Net governmental capital assets	\$771,068	\$(27,927)	\$	\$743,141

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2008 amounted to \$27,927. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE

At June 30, 2008, the Academy has \$0 outstanding from a state aid anticipation note dated August 8, 2007. The note, which had an interest rate of 4.90%, matured June 30, 2008 and the last payment was made prior to year end.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
<u>\$ 18,640</u>	<u>\$ 82,970</u>	<u>\$ 101,610</u>	<u>\$ -</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2008:

	Mortgage note payable
Long-term debt, June 30, 2007	\$ 766,501
Deductions:	
Principal payments	<u>21,914</u>
Balance, June 30, 2008	744,587
Less current portion	<u>25,120</u>
Total due after one year	<u>\$ 719,467</u>

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

Long-term debt currently outstanding is as follows:

Mortgage note payable with monthly installments of \$7,275 through August 2023 with an interest rate of 8.48% adjusted annually. The mortgage is secured by the property.

\$ 744,587

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$582,632 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 25,120	\$ 62,180	\$ 87,300
2010	27,335	59,965	87,300
2011	29,746	57,554	87,300
2012	32,369	54,931	87,300
2013	35,223	52,077	87,300
2014 - 2018	228,552	207,948	436,500
2019 - 2023	348,720	87,780	436,500
2024	17,522	197	17,719
	<u><u>\$ 744,587</u></u>	<u><u>\$ 582,632</u></u>	<u><u>\$ 1,327,219</u></u>

NOTE 7 - OPERATING LEASES

The Academy leases copy machines under an operating lease agreement with the lease starting August 8, 2006 and ending August 8, 2011, with monthly payments of \$238 a month. Expense for copy lease for the year ended June 30, 2008 was \$2,856. Future operating lease commitments are as follows:

Year ending June 30,	Copier lease
2009	\$ 2,856
2010	2,856
2011	2,856
2012	238
Total	<u><u>\$ 8,806</u></u>

**SUNRISE EDUCATION CENTER
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - TRANSFERS

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	<u>\$ 87,560</u>	Debt service fund	<u>\$ 87,560</u>

Operating transfers were made to the debt service fund to meet principal and interest payments on the mortgage note.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2008, the Academy incurred expense of \$13,625 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy had entered into a four year (through October 2011) management agreement with CS Partners, LLC for operations of the Academy commencing November 1, 2007. Under the terms of the management agreement, CS Partners' compensation for operating the Academy is \$26,850 for fiscal year 2008.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from CS Partners. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of CS Partners. The amount due to CS Partners at June 30, 2008 was \$18,737.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

**SUNRISE EDUCATION CENTER
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 2,500	\$ 7,004	\$ 8,129	\$ 1,125
State sources	481,534	532,744	518,409	(14,335)
Federal sources	36,656	35,442	33,707	(1,735)
Total revenues	520,690	575,190	560,245	(14,945)
EXPENDITURES:				
Instruction:				
Basic programs	188,009	241,274	237,987	3,287
Added needs	57,815	58,781	59,983	(1,202)
Total instruction	245,824	300,055	297,970	2,085
Support services:				
Pupil	6,500	5,600	6,174	(574)
Instructional staff	5,500	8,623	8,371	252
General administration	54,609	24,608	49,568	(24,960)
School administration	34,349	32,449	38,213	(5,764)
Business services	6,500	31,515	11,683	19,832
Operation and maintenance	41,948	42,219	28,504	13,715
Pupil transportation	38,000	42,486	40,262	2,224
Central support services	-	750	564	186
Total support services	187,406	188,250	183,339	4,911
Total expenditures	433,230	488,305	481,309	6,996
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	87,460	86,885	78,936	(7,949)
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	(86,000)	(86,000)	(87,560)	(1,560)
NET CHANGE IN FUND BALANCE	<u>\$ 1,460</u>	<u>\$ 885</u>	<u>(8,624)</u>	<u>\$ (9,509)</u>
FUND BALANCE:				
Beginning of year			40,231	
End of year			<u>\$ 31,607</u>	



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Sunrise Education Center

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of and for the year ended June 30, 2008, which collectively comprise Sunrise Education Center's basic financial statements and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sunrise Education Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1 is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Sunrise Education Center in a separate letter dated September 12, 2008.

This report is intended solely for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

September 12, 2008

Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Criteria: Significant year end adjustments were proposed by the external auditor and recorded by the client during the audit.

Condition: All accounts were not adjusted to accurately reflect the transactions taking place at year end.

Context: Failure to make significant adjustments increases the risk that the financial statements will be materially misstated.

Cause: Oversight by the staff and management to record journal entries that properly reflect the transactions that have occurred at year end.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Recommendation: The Academy should review year end transactions and record journal entries for any transactions not recorded.

Client Response

We are aware of this deficiency and agree with all adjustments proposed by the auditors. The Academy will continue to work on the accuracy of all significant accounts.



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September 12, 2008

To the Board of Directors
Sunrise Education Center

In planning and performing our audit of the financial statements of Sunrise Education Center as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Sunrise Education Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

During our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 12, 2008 on the financial statements of Sunrise Education Center. Our comments are summarized as follows:

Month-end procedures checklist

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the Academy's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided Academy personnel with a month-end procedures checklist which can be customized further for your Academy. The purpose of this checklist is to provide Academy personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the Academy consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

Uninsured bank deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the Academy's investment policy to ensure it continues to satisfy the Academy's goals.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Sunrise Education Center, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



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September 12, 2008

To the Board of Directors
Sunrise Education Center

We have audited the financial statements of Sunrise Education Center for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Sunrise Education Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Sunrise Education Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you during our conversation about planning matters on June 16, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sunrise Education Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not identify any sensitive estimates.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Sunrise Education Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sunrise Education Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Sunrise Education Center and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.

September 12, 2008